

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2001**

NOTE 15 - LEGAL MATTERS/CONTINGENT LIABILITIES

Primary Government

There is no litigation currently pending or probable of assertion against King County in which, to our knowledge, the likelihood of an unfavorable outcome with material damages (in excess of \$500,000) assessed against King County is probable, as explained in Paragraph 5.2 of the Commentary to the ABA Statement of Policy Regarding Lawyers' Responses to Auditors' Requests for Information (February 1990) and Financial Accounting Standards Board Statement 5, *Accounting for Contingencies*.

The following litigation, or threatened litigation, may involve claims for material damages against King County for which the County is unable to provide an opinion as to the ultimate outcome or the amount of damages that may be found:

- A federal declaratory judgment action, in which King County is co-defendant, filed by the builders risk insurer for the Alki Transfer/CSO project contract. This is a related action to the lawsuit filed by a subcontractor seeking \$1 million in claims for adjustments to the contract sums; the County prevailed in both summary judgment and appeal.
- A \$500,000 claim for breach of contract and quantum merit filed by the general contractor arising out of a construction contract under the Lake City Tunnel Regulator Station Odor Control System Upgrade project.
- A class action lawsuit alleging violation of County ordinances and State law regarding plaintiffs' salary and employment with the County. Plaintiffs seek remuneration in the form of back pay, prejudgment interest, double damages, and attorneys' fees on behalf of an uncertified class. The higher courts have so far denied King County's motions for summary dismissal of plaintiffs' claims and for discretionary review.
- A pending appeal by a group of part-time transit operators following their exclusion from the Logan vs. King County settlement agreement; and a second lawsuit by the same group alleging they were denied certain employment benefits and are seeking back pay, prejudgment interest, double damages, and attorneys' fees.
- A lawsuit filed against King County and certain contractors for property damage allegedly caused by the construction of the Alki Transfer/CSO/Southern Transfer/Interurban project. The complaint is for an indeterminate amount, although prior to the suit the plaintiff did file a claim against the County for \$285,363.
- A \$2.2 million claim against King County by the primary contractor of the South Interceptor Parallel – Phase III Project, in the form of requests for change orders, due to incidental damages that arose out of the County's sewer project. The County has, in turn, presented a claim for \$1.9 million to the prime contractor's builders risk insurer.
- A lawsuit filed by three mental health providers against King County, Washington State, and a contractor alleging that the defendants illegally retired about 150 mental health clients.

NOTES TO FINANCIAL STATEMENTS
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NOTE 15 – CONTINUED

Contingent Liabilities

King County has entered into several contingent loan agreements totaling \$53,430,000 with the King County Housing Authority (KCHA) and other owners/developers of affordable housing. The County has provided credit support in the form of reserve guarantees for certain bonds issued by KCHA. All projects are currently self-supporting and the County has made no loans pursuant to these agreements.

Component Unit - Harborview Medical Center

Harborview Medical Center (HMC) is involved in litigation arising in the course of business. It is HMC management's opinion, however, that these matters will be resolved without material adverse effect to HMC's future financial position or results of operations.

The current regulatory environment in the healthcare industry is one of increasing governmental activity with respect to investigations and allegations concerning possible violations of regulations by healthcare providers that could result in the imposition of significant fines and penalties, including significant repayments of patient services previously billed. HMC management believes that it complies with the fraud and abuse regulations, as well as other laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation and regulatory actions unknown or unasserted at this time.

HMC is operated by the University of Washington under a management and operations contract with King County. In this contract, the University of Washington agrees to defend, indemnify and save harmless King County, its elected and appointed officials, employees, and agents from and against any damage, cost, claim, or liability arising out of the negligent acts or omissions of the University, its employees or agents, or arising out of the activities or operations of the medical center.